

## Franchise Tax Board

## REVISED ANALYSIS

Author: Kuehl, Burton/Schiff Analyst: Gloria McConnell Bill Number: AB196;SB542Related Bills: See Prior Analysis Telephone: 845-4336 Amended Date: 07/14/99;07/12/99Attorney: Janet Ballou Sponsor: \_\_\_\_\_**SUBJECT:** Child Support Enforcement

- ☒ REVENUE ESTIMATE CHANGED.
- ☐ FURTHER CONCERNS IDENTIFIED.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILLS AS AMENDED 07/14/99 AND 07/12/99, RESPECTIVELY, STILL APPLIES.
- ☐ OTHER - See comments below.

SUMMARY OF BILL

This bill would create within the California Health and Human Services Agency the Department of Child Support Services (DCSS) to replace the Department of Social Services (DSS) as California's Title IV-D agency. In addition, this bill would transfer from the county district attorneys (DAs) or the new local child support agencies to the Franchise Tax Board (FTB) the responsibility and authority to enforce collection of delinquent child support. This transfer would create and establish within the FTB a statewide child support delinquency enforcement program in support of the county through the DCSS.

Under this program, counties would be required to transfer to FTB all child support accounts greater than \$100 and more than 60 days in arrears or as otherwise defined by guidelines prescribed by the DCSS, in consultation with the FTB. However, the FTB could transfer back to a county or allow a county to retain a child support delinquency if the FTB determines the transfer or retention of the delinquency would enhance the collectibility of the delinquency. Upon transfer of the delinquency, FTB would have the authority to enforce collection of the delinquency as though it were a delinquent personal income tax liability (PIT). In the event a person owes both PIT and child support delinquencies (competing debts), FTB's priority for taking enforcement actions would shift so that child support enforcement would take priority over PIT enforcement.

For purposes of this analysis, "collections" means the receiving, receipt, and posting (cashiering) of money. "Enforcement" is taking an action to compel payment of a child support or medical support obligation. An action involves both direct enforcement actions, such as seizure of a bank account, and indirect actions that result in payment of support, or suspension of a business or driver's license.

Additionally, this bill repeals and renumbers (recasts) various existing laws, some of which pertain to FTB's child support delinquency enforcement program.

Further, under this bill, certain persons currently required under federal law to file an information return reporting non-employee personal services (independent contractor registry [ICR]) for which \$600 or more was paid would be required to

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accelerate the reporting of those services and payments to Employment Development Department (EDD), operative July 1, 2000. The reporting would be required by the earlier of 20 days after entering into the personal service contract with aggregate payments in excess of \$600 or when payments made exceed \$600. The information could be used for child support enforcement, tax enforcement and EDD purposes.

#### SUMMARY OF REVISION

This analysis addresses the revised collection estimate, which reflects the revenue loss attributable to the shift in FTB's collection priority, under this bill and reiterates the collection estimate for child support and the departmental costs. The remainder of the previous analysis of the bill still applies.

##### Tax Revenue Estimate

Shifting FTB's enforcement priority from PIT to child support, as required by this bill, is projected to reduce PIT collections in any given year on the order of \$6 million after this bill is fully implemented.

The impact on PIT revenue collections would depend on the number of individuals with competing debts and the amount of those competing delinquencies. The PIT revenue loss assumes that under this bill PIT tax debtors with competing debts would continue to receive a notice to voluntarily pay their income tax debt, but any subsequent enforcement activity necessary to enforce payment of the income tax debt would be delayed until the child support delinquency is resolved. Therefore, when FTB locates an asset and, under current law, would levy on that asset for collection of income tax delinquencies, under this bill, the asset would be located and subsequent levy would be made to collect the child support delinquency.

The above revenue loss does not reflect state AFDC recoupment as a result of this bill.

##### Collection Estimate

The potential increase in collections attributable to FTB's proposed new enforcement program is unknown. However, FTB estimates that implementation of a comprehensive accounts receivable management system would increase statewide collections of child support by up to approximately \$70 million annually. This analysis is based on the likely benefits by which a full, centralized, automated accounts receivable management effort would increase collections. This estimate assumes that only a small percentage of the total delinquent cases would be those cases where the obligor is in compliance with making payments as required by court order and, therefore, FTB could take no additional actions. Also, this estimate assumes that any accounts returned to the counties, as allowed by this bill, would have a minimal impact on collections. This estimate further assumes that federal law and regulations will not constrain FTB from fully applying this new enforcement program to the collection of child support delinquencies, including its enforcement remedies established in the Revenue and Taxation Code.

FTB evaluated the reasonableness of its estimate of the improvement in the collection of child support arrearages by compiling a database of obligors and matching these obligors to their tax information. FTB then applied assumptions about the percentage of income that it might collect.

#### Departmental Costs

Preliminary research indicates FTB's departmental costs would increase approximately \$3 million during fiscal years 1999/00 and 2000/01, \$8 million the third year, 2001/02 and \$7 million annually thereafter. The following table reflects a general breakdown of the costs and positions it would take to administer the statewide child support delinquency enforcement program for the first three years, which totals approximately \$14 million.

These costs are based on the assumption that FTB would be engaged in accounts receivable management of approximately 900,000 delinquent child support accounts upon transfer of the responsibilities (400,000 delinquent cases presently held by the counties plus FTB's existing inventory of 500,000) with a net increase of accounts transferred to FTB annually of approximately 200,000. These costs also assume that 65% of the payments would be received through EFT. As a result of the transfer of these accounts, increases are expected in the number and complexity of inbound phone calls. More payments would be cashiered at FTB. Outbound enforcement calls would be routinely made. Additionally, costing for filing bankruptcy claims, skip tracing, and resolving debtor hardships also were taken into consideration.

Assuming existing funding practices would continue, 66% of FTB's costs would be paid through federal reimbursement and 34% from General Fund.

Cost Element	Amount (in millions)	Number of Positions
Implementation of ARCS/Strata	\$ 7.0	19.5 plus other one time costs
Staff to make outgoing calls	\$ 4.0	61
Staff to receive incoming calls	\$ 0.5	10
Additional cashiering staff	\$ 0.5	12
Additional technology support	\$ 1.5	15
Additional enforcement support	\$ 1.0	22
Total	\$14.0	139 (of which 120 are on-going)

To the extent that FTB's efforts take over arrearage workloads currently done by the counties, there could be cost savings to the counties. However, since FTB's costs would increase, the new program proposed by this bill may not result in overall cost savings. Furthermore, counties may incur additional costs for meeting the interface needs of the new system.